BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

MAY, 1947

Agricultural Exports Shift

But Emergency Feeding Still Dominates Market

A basic pillar in the strength of farm prices and farm incomes during the war and postwar years has been the large volume of farm products leaving the country. As the needs of the fighting forces diminished and reconstruction began, the kinds of American farm products needed underwent a shift. The postwar period to date has been dominated by a series of food crises in Europe and Asia. The composition of exports has shifted in response to these crises. In addition to this change, the last year has brought a change in the financing of the farm products exported. The shift has been away from Government buying toward cash buying on the part of the importing governments.

EXPORTS SWELLED DURING WAR YEARS

The pressing needs of the war years brought a rapid expansion in the value of agricultural exports. In the 1930's, domestic agricultural exports averaged less than three-quarters of a billion dollars per year. The first full year of World War II, 1940, saw American agricultural exports at the lowest point in many years, at only half a billion dollars. Thereafter, a rapid expansion in exports, based mostly on lend-lease shipments, brought the level of agricultural exports to substantially above two billion dollars for 1943. The importance of lend-lease in the agricultural export situation is shown from the fact that roughly six billion dollars of exports were financed by lend-lease during the six-year period 1941-46. During 1943-45 exports totaled above two billion dollars yearly. For 1946, the first postwar full calendar year, agricultural exports totaled three billion dollars. Present indications are that the 1947 total may be about the same.

Sharp shifts occurred during the war years in the geographic destination of exports. About three-fifths went to Great Britain and one-sixth to Russia, the two countries together receiving three-fourths of the total as compared with only about three-eighths before the war.

The postwar expansion in exports is similar to that occurring after World War I. During the war period a huge expansion took place, but the real peak came in the record years of 1919 and 1920. Exports of farm products in 1919 were, however, in excess of 4 billion dollars, and even in 1920 the value of agricultural exports amounting to nearly 3.5 billion dollars exceeded anything achieved in recent years.

In addition to lend-lease shipments, the buying on behalf of the United Nations Relief and Rehabilitation Administration, beginning in 1945 and running to a limited extent into the current year, has been an important factor in agricultural exports. The total exported on behalf of UNRRA in 1945 and 1946 aggregated a billion dollars.

As the volume and value of exports expanded after 1940, some rather pronounced shifts occurred in the commodity composition of exports. In the immediate prewar years, cotton had accounted for one-third to one-half of the value of agricultural exports. During the war years, on the whole less than 10 per cent of the value was represented by cotton. Not only did the relative proportion of exports represented by cotton decline, but the total dollar value of cotton exports declined as well.

SHIFTS IN COMMODITIES

Aside from cotton, none of the leading agricultural export products showed a decline from prewar levels in the *value* of exports. Comparing the war years with the five immediate prewar years, moderate increases of 25 to 75 per cent were shown for such products as tobacco, fruits, and grains. More substantial increases in the value of exports were shown for vegetables, which increased fivefold, and vegetable oils, which expanded to about eight times the prewar export volume. The really great expansion in export values came in canned meats, pork and lard, dairy products, and eggs.

Canned meats (other than pork), pork, and lard taken together, which had averaged an export value before the war of about 35 million dollars, mounted to a wartime average of about 440 million dollars. The prewar average yearly value of exports of dairy products was eight million dollars. The five-year war average was 180 million dollars.

Exports of eggs and egg products before the war had been negligible, amounting to considerably below one million dollars a year. The average for the war years was almost 200 million dollars a year.

It is not possible on the basis of available data to separate these figures on increases in value of exports into the components of price increase and increased physical quantities exported. It should be obvious that price increases were a very important factor in the rise in the value of exports. Some commodities, for example wheat and tobacco, showed declines in total quantities exported during the war even though the value of exports rose moderately.

Rates of expansion in physical volume of exports are available for some commodities. Examples from some of these give a rough indication of the wartime export volume of agricultural products. Exports of evaporated milk rose from an average of about 40 million pounds to over 500 million; cheese exports expanded from one million to 200 million pounds annually; eggs increased from negligible exports to an average of about 175 million pounds; pork and pork products showed a 600 per cent increase to nearly half a billion pounds per year; other canned meats rose from two million to 200 million pounds; and lard exports

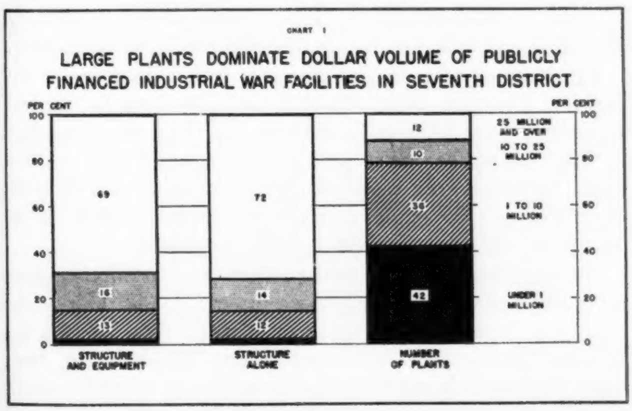
(*Continued on Inside Back Cover*)

Surplus Manufacturing Plant Disposals

War Facilities Increase Peacetime Production

Aided by post V-J Day high levels of general business activity, scarcities of building materials and labor, and sharply rising construction costs, the War Assets Administration (WAA) has been successful to date in selling or leasing 181 surplus war-built manufacturing plants in the Seventh Federal Reserve District, which comprises most of Illinois, Indiana, Michigan, and Wisconsin, and all of Iowa. In dollar terms these plants represent 10-15 per cent of the estimated value of all industrial facilities in the District before the war, and currently provide places of employment for about 150,000 workers. Important contributions to District and national production are being made by these industrial facilities, particularly where postwar scarcities are most acute, as in steel, agricultural machinery, automobiles, and other durable consumers' goods.

With the sale or lease of almost two-thirds of the 251 plants thus far declared surplus, the disposal program in the District is moving at a faster pace than in the nation as a whole. For the most part, plants already disposed of are readily convertible to peacetime uses, well located with respect to markets and/or sources of labor supply, and capable of turning out products in considerable postwar demand. The Seventh Federal Reserve District is fortunate in having an unusually high concentration of wartime publicly financed manufacturing facilities in these categories. Disposal of the remaining 70 District plants declared surplus but not yet sold or leased, as well as many of the 36 plants which may be declared surplus, on the whole will place increasing strain on the ingenuity and resources of the WAA. In addition to possessing fewer advantages of location and convertibility, a number of these plants are so large that their market is limited to major corporations unless substantial alterations are made. The WAA recently has been emphasizing multiple tenancy as a possible solution to this problem. While the level of business in the immediate future will have an important influence on further disposals, some plant structures undoubtedly will have to be dismantled and sold as salvage and the land converted to nonindustrial use.



Approximately one-third of the disposals of plants costing more than 10 million dollars has been by lease, compared with only about one-eighth for smaller plants. A serious disposal problem clearly would arise for the Government if present lessees should terminate leases without exercising their option to buy. This would be particularly true in the case of the two automobile manufacturing plants leased to Kaiser-Frazer and the Tucker Corporation, and the aluminum rolling mill leased to Reynolds Metals. In each of these three instances legal stipulations to preserve and promote competition, under which the WAA operates, complicate the many other physical problems of plant size, location, and convertibility related to disposal.

PUBLICLY FINANCED INDUSTRIAL FACILITIES

War Production Board authorizations of expenditures of public funds for manufacturing facilities in the Seventh Federal Reserve District between June 30, 1940, and V-J Day exceeded 3.5 billion dollars, an amount greater than in any other Federal Reserve District and more than 21 per cent of the national total.[1] Over 2.7 billion dollars of the District's authorizations were for the erection and equipment of 287 new plants; the remaining funds were used for the improvement of plants already existing, through structural alterations and the addition of new machinery and equipment.

Of these plants, 63 cost more than 10 million dollars each and accounted for four-fifths of all authorizations on both plant structures alone and plant structures and equipment combined (see Chart 1). Plants with original costs under one million dollars were much more numerous but represented less than three per cent of total dollar authorizations. The District followed the national pattern in concentrating public wartime expenditures on large plants, most of which were operated by the country's leading corporations. For example, 19 of the largest corporations operated plants aggregating over two-thirds of the District's authorizations; General Motors, Chrysler, and Ford alone accounted for one-third of the total.

District war-built facilities were confined largely to metalworking, with a few new plants in chemicals, rubber processing, textiles, and food. Several industries which have presented unusually severe disposal problems in other regions of the nation were represented by relatively few new plants, namely, synthetic rubber, synthetic ammonia, shipbuilding, and final assembling of heavy-type aircraft.

[1]Unless otherwise stated, all dollar figures refer to War Production Board authorizations of expenditures. Actual expenditures are not available for individual plants, but in the aggregate closely approximate total authorizations.

If ammunition plants purposely located in sparsely settled localities are excluded, three-quarters of the authorizations for new plants, including equipment, in the Seventh District were concentrated in Chicago, Detroit, Milwaukee, and Indianapolis, the four leading industrial areas. When the scattered ordnance plants are included, the proportion of the District's industrial war facilities located in these four major industrial areas drops to three-fifths.

SURPLUS DISPOSAL ORGANIZATION AND PROCEDURE

The national total of more than 16 billion dollars of widely scattered, special purpose plant and equipment comprises less than one-half of all the publicly financed property acquired during the war by the armed services and various Government agencies. Other categories of property include such things as consumer goods, airports, and even territories and island possessions.

Since before the end of the war Government property items no longer needed for defense or war purposes by the owning agencies have been declared "surplus," that is, made available for public sale. Only property formally declared to be surplus can be sold. Vast quantities of property and equipment are currently idle but unavailable for sale because a "surplus" designation has not yet been made.

The problem of disposing of surplus property originally was delegated to the Reconstruction Finance Corporation and then to its subsidiary, the War Assets Corporation. On February 1, 1946, however, the War Assets Administration was created as an independent agency for the purpose of taking over the surplus disposal job.

The physical task alone is formidable. Although the exact amount of property of all types, industrial and other, which may ultimately be declared surplus is not known, estimates have run as high as 34 billion dollars. In addition, the Surplus Property Act contains a number of requirements to which the WAA must conform in the sale of certain types of property. The two provisions of greatest importance in the disposal of manufacturing plants are the preferential standings accorded certain types of buyers, such as Governmental agencies or wartime operators, and the stipulation that sales or leases must be made in such a manner that competition is fostered.

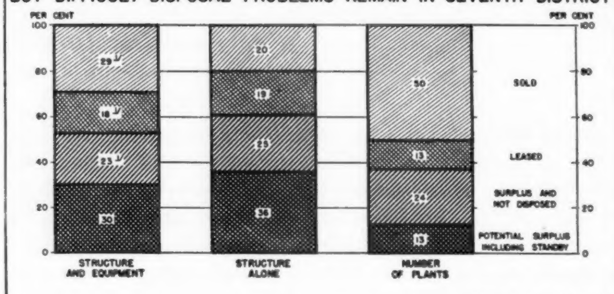
In order to move as expeditiously as possible, the WAA has decentralized its operations among zone and regional offices throughout the country. The Seventh District is served by four regional offices located in Chicago, Detroit, Cincinnati, and Omaha, all of which are under the jurisdiction of the Chicago zone office.[2]

Divisions specializing in given types of property have been set up within each office. Publicly financed manufacturing plants declared surplus fall under the Office of Real Property Disposal. This division seeks to sell or lease plants with all equipment intact. If, however, a given buyer or lessee wishes only part or none of the equipment, the unwanted portion is moved out and either scrapped or turned over to another division for sale as general disposal. Sale or lease of plant structures is of primary interest here.

[2]These offices maintain lists of currently available surplus property.

CHART 2

SUBSTANTIAL PORTION OF SURPLUS PLANTS SOLD OR LEASED, BUT DIFFICULT DISPOSAL PROBLEMS REMAIN IN SEVENTH DISTRICT



FIGURES AS OF MARCH 1, 1947

[1]Some of the equipment has been removed and either destroyed or put into general disposal for separate sale or lease.

DISTRICT DISPOSAL PROGRESS

The 181 plants sold and leased through February 1947 include 72 per cent of the District's total war authorizations for new plant structures and equipment combined and 60 per cent for new plant structures alone (see Chart 2). The latter is the preferable guide to the progress of the WAA real property disposal program, since not all the equipment originally installed in new plants is included in their sale or lease. Also, plants have varying proportions of structural-to-total costs, the over-all average being about two-fifths. In general, the smaller the plant size, the larger the proportion of structural costs. The nature of the products turned out, however, is also a highly important determining factor. For example, in the case of ammunition production the structural cost of the plant considerably exceeds that of the equipment, whereas the reverse is true in the case of plants producing aircraft engines.

An additional eight or ten plants listed as surplus on March 1, 1947, were actually sold and were waiting merely the clearance of procedural or legal technicalities. These bring the District plant disposal total to about 190 to date. The over-all statistical record somewhat understates the task ahead. In value terms, 65 per cent of the plants costing under 10 million dollars have been sold, compared with only 36 per cent of the larger plants with individual costs of over 25 million dollars. These large plants, as already indicated, provide the major disposal problems remaining.

Furthermore, the rate of disposals in the four major industrial areas has been almost double the rate in the remainder of the District (see Chart 2). The accumulation of large plants has been particularly noticeable in smaller areas, although even in the major areas almost one-third of the remaining 35 plants had an original cost in excess of 10 million dollars for structure and equipment.

Judging from available evidence, lesser population centers in the District, particularly those under 25,000, promise to receive greater lasting benefits from small than from large wartime plants built in or near them. Probably the best examples are 28 hemp mills scattered among relatively small

areas in each of the District states except Michigan. Nineteen have been sold or leased, employ almost 2,000 workers, and manufacture a wide variety of products, including automotive and radio parts, trailer coaches, men's clothing, stone, canned vegetables, hybrid seed corn, and in one instance, hemp.

IMPORTANCE TO DISTRICT ECONOMY

As already indicated, the Seventh Federal Reserve District emerged from the war with larger and qualitatively improved manufacturing facilities. Public funds accounted for more than 80 per cent of total dollar authorizations and were of particular importance in increasing the capacity in such basic District industries as steel, aluminum, automobiles, and agricultural machinery.

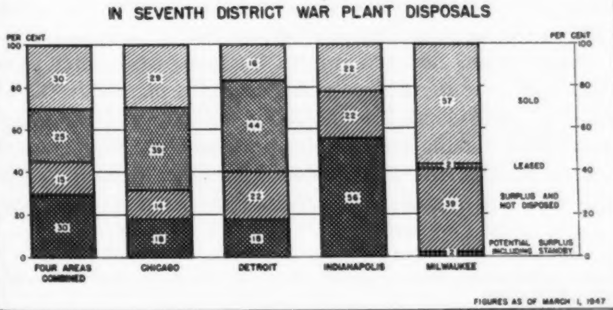
The three District steel mills built during the war with Government funds are all located in the Chicago metropolitan area and account for about 5 per cent of the District's current capacity. Sold since V-J Day to Republic Steel, Inland Steel, and Youngstown Sheet and Tube, their wartime operators, these mills represent about 15 per cent of the nation's wartime-added publicly financed steel capacity. In spite of a small relative wartime loss, steel capacity in the District is still about 23 per cent of the national total.

The Federal Government was responsible for a marked increase in Seventh District activity in several important phases of the aluminum industry during the war, notably rolling and extrusions. The only aluminum rolling mill in the District, the war plant at McCook, Illinois, is capable of producing 288 million pounds a year, or 13 per cent of the nation's rolling capacity. Two plants built in Grand Rapids and Adrian, Michigan, during the war together account for almost one-tenth of the nation's extrusion capacity. All three of these plants have been sold or leased since V-J Day and are in operation. Four of the remaining six aluminum plants thus far disposed of have been converted to the production of iron and steel products.

Almost one-third of the District's wartime public funds authorizations went into building and equipping plants for the production of aircraft engines and components. Most of these facilities were convertible to the manufacture of automobiles or automobile parts. Plants in this category already sold or leased, although capable of adding as much as 15 per cent to prewar automobile production, have fallen far short of this figure to date. For example, the Willow Run plant, operated by Ford during the war and since leased to Kaiser-Frazer, has operated considerably below rated capacity. During 1946, Willow Run accounted for less than one-half of one per cent of all passenger cars and trucks produced, whereas at full output the figure probably would be much larger. In recent months the percentage has risen to slightly under two. The Dodge-Chicago plant, under lease to the Tucker Corporation, is not yet in production.

CHART 3

CHICAGO AND DETROIT INDUSTRIAL AREAS LEAD IN SEVENTH DISTRICT WAR PLANT DISPOSALS



FIGURES AS OF MARCH 1, 1947

Although some of the disposed surplus plants in this District are not yet in full operation, they employed an estimated average of 150,000 workers during the first quarter of 1947, or approximately five per cent of the District's total manufacturing employment. Further increases in employment and production can be expected from the sale of surplus properties presently and potentially available. Employment in surplus plants does not necessarily represent a net gain in District employment, however. The strong demand since the end of the war undoubtedly would have resulted in many of the workers in surplus plants being absorbed elsewhere, especially in the larger industrial areas.

SURPLUS DISPOSAL PROBLEMS

Postwar prosperity has been extremely important in easing the task facing the War Assets Administration in selling or leasing surplus plants. Besides creating a demand for surplus plants, record levels of business activity have led to a heavy demand for new industrial building, thereby minimizing objections which might otherwise have been raised by the construction industry to the WAA real property disposal program. Nevertheless, there have been many problems, and many more lie ahead.

Probably the most perplexing difficulty for the WAA has been to meet the requirement that selling and leasing plants be done in such a way as to promote competition. The dominant prewar role of large corporations in the economy, heavy concentration of wartime public financing on plants costing over 10 million dollars—80 per cent of the total in the Seventh District—, and the general nature and history of anti-trust legislation and enforcement all raise fundamental as well as practical questions regarding the possible effectiveness of the surplus property disposal program as a vehicle for basic reforms in the structure of industry.

In the Seventh District the anti-trust requirement has caused some delay in the disposal of at least two plants, both very large. The offer of the Aluminum Company of America to buy the rolling mill which it operated during the war at McCook, Illinois, was ultimately turned down in favor of a lease to Reynolds Metals. Rejection of the purchase offer of the Ordnance Steel Foundry at Bettendorf, Iowa, by American Steel Foundries resulted in its later sale to the Bettendorf Company. Several large plant disposals in the District have been commented upon as stimulating competition in steel and automobiles.

The WAA also has the responsibility for selling properties at the highest possible price, taking into account, of course, such other factors as the maintenance of competition and the preferred status of such bidders as governmental and non-

profit institutions. There are no generally acceptable standards by which to judge the efficiency of this aspect of the disposal program. Neither is there sufficient information to estimate the return as a percentage of either original or reproduction cost less depreciation. War facilities were subject to abnormal depreciation as the result of excessive use and lack of repair parts and trained labor. On the basis of original cost unadjusted for depreciation, however, sales of surplus war plants in the Seventh District to date have averaged 44 per cent, somewhat above the national figure which roughly approximates 40 per cent.

In general, the percentage of sales price to cost has tended to vary inversely with plant size and directly with the population of the area in which the plant is located. Variations among District states partly reflect this situation. Michigan's high average of 55 per cent return to the Government on original cost has been aided by a considerable concentration of plants in large cities. Iowa is at the other extreme with a number of chemical, rubber, metalworking, and ammunition plants scattered among rural areas, and has averaged only 24 per cent. Disposal experience in Illinois, Indiana, and Wisconsin more nearly resembles that in Michigan; percentage returns range from 42 to 50. It seems fairly evident that sale of remaining industrial properties in this District will result in a continued downward trend in returns on original cost.

Multiple tenancy is now being pushed by the WAA as a device to make large surplus plants more attractive for consideration of smaller companies, thereby widening the number of prospective buyers and lessees. Of the six plants now being operated by the WAA as multiple tenancy projects, none is located in the Seventh Federal Reserve District. Judging from information supplied by the WAA covering these multiple tenancy projects, the key factors determining their success are availability of labor supply, nearness of markets, and local enthusiasm in attempting to draw new business firms into the area.

Only one of the four District plants now being studied for multiple tenancy possibilities, the Des Moines ordnance plant, is located in a large city; the others include ordnance plants at Dixon and Illiopolis, Illinois, and a magnesium plant at Marysville, Michigan. The initial Seventh District multiple tenancy study, covering the Dodge plant in Chicago, was dropped more than a year ago on completion of negotiations leasing the whole plant to the Tucker Corporation. The lessee, according to current reports, is considering the development of a multiple tenancy program for those parts of the plant not needed in its own operations.

In addition to the physical problems of altering large plants and providing the requisite "landlord services" and the economic problems of attracting tenants, the multiple tenancy program faces uncertainty over ultimate Congressional attitude toward continuing Government ownership of business properties. Criticism of continued Government ownership can be avoided if, as in Birmingham, Alabama, the entire plant is bought by local interests. Local development corporations might undertake to acquire surplus war plants. Several such corporations now exist in the Seventh District, and plans are underway for additional ones. To date, however, their activities have not included the development of surplus plants for peacetime use.

FINANCING PURCHASES OF SURPLUS PLANTS

Coincident with the general deterioration of the financial position of business concerns in recent months, a growing proportion of surplus property sales has been on credit rather than for cash, which had been the common means of payment during the first year of the program following V-J Day. This change in payment method, which is of considerable interest to banks, has been particularly evident among smaller companies. In the absence of cash resources, they have exercised their right under WAA regulations of paying 20 per cent down and signing a mortgage for the unpaid balance which is to be amortized in quarterly instalments usually over a period not exceeding 10 years. Interest charges are usually 4 per cent.

Larger companies are for the most part still paying cash. However, surplus property purchases by large companies are an important factor contributing directly or indirectly to recent upward trends in new security issues and bank loans. This is clearly so in several cases; for example, a 75 million dollar preferred stock issue sold late in 1946 by General Motors reportedly was used to retire debt and to build up working capital depleted in part by the corporation's purchase of surplus plants throughout the nation. The Tucker Corporation is currently engaged in negotiating an issue of 20 million dollars in stock in order to begin actual production, and the Kaiser-Frazer Corporation last year sold about 54 million dollars of stock for the same purpose.

THE TASK AHEAD

In addition to plants declared surplus but not yet sold or leased, there are 36 plants not yet declared surplus in the Seventh Federal Reserve District.[3] To the extent that the latter are eventually declared surplus, the magnitude of the task confronting the WAA will be increased considerably. The potential surplus category includes a high concentration of plants poorly located for peacetime use, special wartime purpose plants, and facilities averaging three times the size of plants already declared surplus in this District. Twenty-two of these, including six ammunition plants and a few shipbuilding facilities, were purposely located outside of major population centers. The number of these plants which will ultimately be declared surplus will depend upon Congressional policy with respect to the size of the nation's peacetime defense program and upon budget allocations within the Departments of War and Navy.

Since plants declared surplus but yet unsold offer problems similar to those of potentially surplus plants, the WAA faces a future clouded by increasing difficulties. To complete this job of making available for peacetime use to the largest extent possible the vast industrial facilities needed to win the war will require wholehearted cooperation of all elements in the community.

[3]None of the plants included in this study was part of the wartime atomic energy program.

Property Taxes in Illinois

First Year Under the One Hundred Per Cent Assessment

In Illinois the 1946 property tax bills are, or will shortly be, in the hands of taxpayers. To many owners of real estate this annual reminder of cost of local government will be both unpleasant and unexpected. Based on the usual comparison that taxpayers look to—last year's bill—1946 taxes in many sections of the state are likely to be up as much as 30 per cent.

Such increases have stimulated an insistent demand for justification and remedial legislation by the General Assembly now in session. The most common target of the taxpayers' ire is the so-called Butler Bills; however, the basic factors contributing to the level of 1946 taxes are the increasing cost of local government, a pronounced lag in the adjustment of prewar government costs to new price levels, and the administrative and structural defects in the Illinois property tax law for which the Butler Committee program was a partial remedy. From the available data it is impossible to make a precise quantitative analysis of the contribution of each of these factors to higher taxes, but some approximation of their comparative significance is practicable.

INCREASES IN ILLINOIS PROPERTY TAXES COMPARED TO INCREASES IN SELECTED INDEXES OF ECONOMIC CONDITIONS (1939-46)

Items	Increase from 1939 to: 1945	1946
ILLINOIS PROPERTY TAXES		
All Units of Government	16%	N.A.
Major Units in Cook County[1]	9	13%
Units Affected by Butler Bills[2] — Total	24	N.A.
Schools	38	N.A.
Cities, Villages, Parks, and Sanitary Districts	25	N.A.
Counties and Forest Preserve Districts	N.C.	N.A.
Townships and Road Districts	—7	N.A.
ILLINOIS TAX BASES		
Estimated Full Value of Property — Downstate	72	N.A.
Taxable Retail Sales	68	126
INCOMES		
Income Payments to Individuals — Illinois	100	106
Disposable Income of Individuals — Illinois (est.)	84	88
Wages and Salaries — United States	152	141
Net Income of Farmers — United States	191	246
Net Corporate Profits — United States	114	186
PRICES — UNITED STATES		
Consumers' Price Index:		
All Items	29	54[3]
Food	46	92[3]
Housefurnishings	44	77[3]
Wholesale Price Index:		
All Commodities	37	93[4]
Food	51	134[4]
Fuel and Lighting Materials	15	42[4]
Building Materials	30	96[4]

[1]City of Chicago, Chicago Board of Education, Chicago Park District, County of Cook, Forest Preserve District of Cook County.
[2]All downstate governments and those in Cook County excepting the six major governments, (footnote 1).
[3]As of February 1947.
[4]As of week ending April 5, 1947.
N.A.—Not available.
N.C.—No change.
SOURCES: Illinois Department of Revenue; *Survey of Current Business*, U. S. Department of Commerce; *Monthly Labor Review*, U. S. Department of Labor.

TAXES, INCOMES, AND PRICES

Essential background to understanding the causes for the increase in 1946 taxes is contained in a brief review of the trend of property taxation in Illinois during the war and immediate prewar years. For the state as a whole, property taxes have increased only 16 per cent from their prewar base. If the major governments in Cook County (the City of Chicago, the Chicago Board of Education, the Chicago Park District, the Chicago Sanitary District, the County of Cook, and the Forest Preserve District of Cook County) are excluded, the increase is somewhat greater, amounting to 24 per cent. Most of this increase is to be found in the taxes for schools, which have increased 38 per cent, and for cities, villages, parks, and sanitary districts, which have increased 25 per cent. Taxes for counties, townships, and road districts have decreased 4 per cent.

No elaborate demonstration is necessary to justify the conclusion that the cost of local government as measured by property taxes has lagged well behind nearly every other item of taxpayer receipt or expenditure. Thus in Illinois, between 1939 and 1945, income payments to individuals increased 100 per cent. Even the disposable income of Illinois citizens (i.e., the income available for the purchase of goods and services and for saving, and after the deduction of Federal personal income taxes, property taxes on home, and other direct personal taxes) increased over 80 per cent. Taking the country as a whole, these are the years in which net income of farmers tripled, corporate profits more than doubled, and salaries and wages increased to nearly two and one-half times their 1939 level.

On the expenditure side, changes were less spectacular due to the effect of rationing and price controls. The overall cost of living increased 29 per cent but food, clothing, and housefurnishings were up 45 per cent.

The index of wholesale prices is a measurement more pertinent to cost of materials and supplies purchased by local governments. For all commodities this index shows a rise of 37 per cent; such items as food, fuel and lighting materials, and building materials increased 51, 15, and 30 per cent respectively. The repeal of price control has been followed by a sharp upward swing in all of these categories. As of the most recent date available, the changes are shown in the accompanying table.

The dollar magnitude of the change in the economic situation in Illinois during these seven years is also reflected in the sales of tangible personal property subject to the retailers' occupation tax and the estimated full value of the property tax base. In 1939, taxable retail sales in Illinois totaled 2.9 billion dollars; in 1945, 4.9; in 1946, 6.6. From 1939 to 1945 the increase is 68 per cent, and from 1939 to 1946, 126 per cent.

The property tax base (i.e., the full value of taxable property estimated from annual ratios of assessed to sales value) for all counties excepting Cook increased during the years 1939 to 1945 from 7.4 billion dollars to 12.8, or over 70 per cent. Since during the same period property taxes on this base increased less than 25 per cent, it follows that the effective rate of taxation on property has actually decreased. If taxes had absorbed the same relative proportion of the property tax base in 1945 as in 1939, the increase in tax dollars would have been nearly triple the actual change experienced.

The foregoing comparisons of the level of income, prices, expenditures, and wealth are made to afford a quantitative basis for measuring the relative level of past and prospective property taxes. In terms of the economic capacity of business or individuals to pay, property taxes have actually declined in this period. The absolute amount of such taxation has shown but a fraction of the increase in corporate profits, net income of farmers, income payments to individuals before or after personal taxes, and in the statutory base for property taxation.

RISING COST OF LOCAL GOVERNMENT

The pressure to increase property taxes to cover increased costs of local government is more difficult to gauge. Most of the evidence points to substantial increases in the immediate future. Over all, local governments and the schools in particular cannot recruit personnel at present rates of pay without a serious deterioration in the caliber and training of the new employees. Material and supply costs have increased drastically in the past several months; there is no assurance that these costs will shortly be reduced. In any event many such purchases cannot be postponed. Public improvement programs held in abeyance during the war years are being, or will shortly be, undertaken at very much higher costs than prevailed in 1939. Postwar residential construction is imposing large and most urgent demands on local government for new streets, sewers, and school facilities. These considerations add up to markedly higher costs for local government.

The effect of increased local expenditure on future property taxes depends upon the extent to which higher costs are already reflected in tax bills, the amount of state aid, the transference of functions from local units to the state, the use of other sources of local revenue, and the prevailing fiscal policies of local government. The majority of the states have some central agency that compiles and periodically reports the cost and financial condition of local governments. Unfortunately, Illinois has no such reporting system excepting for schools. Data for a small number of the larger units are available from the reports of the United States Bureau of the Census, Governments Division. These data are too fragmentary to reveal prevailing fiscal practices or to aid in evaluating the over-all trend of costs.

The magnitude of projected capital outlay programs of local governments may be roughly estimated from the applications of local governments to the Illinois Post-War Planning Commission for state aid in planning public improvements. While many plans are long-range and intended as a "shelf of public works" for depression years, an increasing proportion relates to programs that local governments will inaugurate at the first opportunity. Presently, plans to which state aid in planning have been extended call for an estimated expenditure of over 280 million dollars.

The policies of the State Government have undoubtedly played an important and growing role in the finances of local government in the past seven years. Grants-in-aid to school districts have increased about 5 million dollars. Local responsibility for financing poor relief has been pegged at a moderate property tax rate; the State assumes all necessary costs in excess of such minimum. Moreover, during these years the State has assumed the full responsibility for financing pensions to the blind and aid to dependent children, a fact that explains in large measure the leveling off of property taxes for the county units of government.

It is unlikely that the property tax would have borne the full amount of expenditure assumed by the State in these aid and functional changes, but undoubtedly their pressure would have brought material increases in property taxes. The level of property taxation in the immediate future is closely related to the policy of the State on grants-in-aid, shared taxes, and the assumption of local functions. Patterns for the next two fiscal years are now being considered by the General Assembly. No doubt a significant portion of the likely increase in local expenditures will be financed by further extensions of state interest and support.

To the extent that the financing of increased costs of local services is left to local government, it still has alternatives available that will not necessarily entail an increase in property taxation. It may reduce the amount and quality of government service and squeeze the water out of its budget by eliminating waste and inefficiencies in operation. In some instances these policies may reduce costs to a level consistent with the existing yield of property taxes.

No doubt much remains to be accomplished in the reduction of unit cost of government service through improved purchasing, better personnel practices, and extensive reorganization. These reforms are, however, difficult of accomplishment unless there is an active and sustained taxpayer interest in such a program. There are numerous precedents which illustrate the effectiveness of continuous survey and study on the reduction of public expenditures.

Some local governments may exploit other sources of revenue as another alternative to raising property taxes. They may increase water rates, impose sewerage fees, adopt or increase business licenses, liquor permits, and vehicle licenses. Most of these possibilities are confined to the cities and villages. These units can also levy special assessments for local improvements although the experience with special assessments in Illinois was so disastrous in the decade of the 1930's that this source of funds is not generally well regarded.

As a final alternative to increasing tax levies immediately, local units may use up cash balances and reserves or they can resort to credit to postpone the time when taxes have to equal expenditures. A local government operating on a cash basis may delay indefinitely the levy of at least a full

year's taxes by drawing down its cash balance and moving to a tax anticipation borrowing basis. When it has exhausted its credit facilities with the banks, it may borrow from its employees by paying them in warrants which can only be converted into cash at a discount. It may borrow from businessmen and industries who supply materials and services by permitting unpaid bills to accumulate.

The effect of capital expenditure programs on taxes can also be minimized by providing maturity schedules for new issues which defer principal payments for a period of years. The tax levy need then only provide for interest costs. By these and similar practices the current rate of expenditure need not be fully reflected in property taxes for several years in the future.

EFFECT OF THE BUTLER BILLS[1]

It was not anticipated that the program adopted by the General Assembly of 1945 would lower everyone's taxes. It was recognized, for example, that the proportion of total taxes paid by railroads and public utilities on their capital stock in counties having assessment ratios of less than the state average (51 per cent in 1944) would decrease and, conversely, the proportion would increase in counties having assessment ratios in excess of the state average. Since tax levies are determined independently of the assessments, any decrease in taxes on one class of property is reflected in an offsetting increase in taxes on other classes.

Before the changes effected by the Butler Bills, state assessed property (railroads and capital stock of public utilities) was taxed at the state average of assessment ratios. Thus in Lake County, with a 20 per cent assessment ratio, state assessed property was paying on a valuation base two and a half times as high as that of locally assessed property. The Butler Bills put state assessed and locally assessed property on the same basis and thus reduced taxes on the state assessed property by 60 per cent. Cook County, on the other hand, had an assessment ratio for local assessments of 73 per cent. In 1944, property valued by the State was assessed at only 51 per cent. The effect of the Butler Bills was to increase taxes on state assessed property in Cook County by approximately 40 per cent. This was an objective of the program, and it should occasion no surprise that that result shows in the 1946 tax bills. It should be noted that the taxpayers whose property is assessed by the state will, as a class, pay approximately the same total tax. However, individual companies are variously affected by the changed procedure.

An unanticipated development has occurred in the assessment of personal property. While local assessment authorities were familiar, prior to 1946, with the findings of the Department of Revenue as to the level of real estate assessment in their respective districts, they continued a policy of using markedly different assessment ratios in their assessment of personal property. It was not uncommon for the sales data of the Department to show a real estate assessment ratio between 25 and 30 per cent in counties where personal property was assessed on a basis of 40 per cent. Faced with the knowledge that for 1946 both personal and real property assessments were to be equalized by the Department on the same basis, the local assessment officials generally reduced their assessments of personalty to approximate the level of real estate valuations indicated by the most recent findings of the Department of Revenue. This resulted in drastic shrinkage in the personal property roll, running as high as 75 per cent in one county.

This is a juncture at which the need for a better organized and more efficient assessment staff becomes apparent. It is reasonably obvious that the reduction of personalty assessments in many counties by this arbitrary procedure failed to give adequate consideration to a realistic appraisal of the full value of personal property. The vital importance of a good initial assessment which is to serve as a basis for the Revenue Department's full value equalization is brought into sharp focus.

The effect on real estate tax bills of the reductions in personal property assessments is identical to the reduction in state assessments, namely, a shift of burden from one

[1]The Butler Bills enacted at the 1945 session of the General Assembly were designed to remedy certain long-standing defects in the Illinois property tax. Among these were the failure of local assessment authorities to value property at its fair cash value and the inability of state authorities, because of statutory limitations on equalization powers, to equalize such local assessments on either a uniform or full value basis.

Local assessment officials by using varying fractions of the full value as the basis of assessing did far more than perform their statutory duty, that of spreading the total tax burden among owners of property. Fractional assessments drastically tightened the statutory system of rate limitation prescribed by the General Assembly. For example, the maximum statutory rate that could be levied by school districts for educational purposes without a referendum was fixed at 1 per cent. The limitation was expressed in terms of the state equalized valuation, but since no equalization had been made over a period of several decades, for practical purposes the limitation was in terms of the locally assessed valuation. Thus, in a county with a 25 per cent factor or assessment ratio, the effective limitation was one-fourth of 1 per cent, whereas in the county with a 50 per cent assessment ratio the limitation was one-half of 1 per cent.

By and large, local assessors initiated only modest changes in assessment ratios to accommodate the needs of local governments or to meet the demands for tax reduction. The practice generally adopted was to maintain assessment totals in close conformity to those of preceding years. In the period of severe depression of the 1930's, substantial reductions were made in assessed valuations, but these cuts no more than very tardily reflected changes in full values. There has been virtually no upward flexibility in local assessments in the past twenty years.

In 1943 the assessor of Cook County deliberately changed the assessment ratio in that county by increasing assessments to 270 per cent of their former level. The effect was to relax in like proportion the rate limitations on all excepting certain of the major units of government in Cook County. The concern over prospective tax increases brought forth a demand for remedial legislation which would re-establish a restrictive level of limits for the governments in Cook County outside of Chicago and would prevent such a result from occurring in any other county. The remedy adopted in the Butler Bills was to require the raising of all local assessments by the Department of Revenue to one 100 per cent of full value and to fix rate limitations on the power of local governments to levy on property in terms of these full valuations. The existing rate limitations were halved in recognition of the fact that the statewide assessment ratio at that time was approximately 50 per cent.

Less conspicuous objectives of the Committee's program were measures to insure the uniform treatment of assessments by the Department of Revenue on railroads and public utilities with those made by local assessment officials on real estate and personal property. The program also ended the discrimination among taxpayers of districts extending into two or more counties, and fixed a uniform basis for expressing limitations on indebtedness.

A vital phase of the Butler Committee program was not adopted by the General Assembly. It was directed at improving the quality of original assessments by requiring the installation in all counties of standardized appraisal systems, including tax maps and property record cards, and providing for the creation of a county assessment supervisor to direct and supervise the work of local assessment officers. Cook and St. Clair Counties now have such systems and centralized responsibility for their maintenance. It is becoming more and more apparent that many of the complaints regarding the present situation are attributable to failure to recognize the importance of improvement in local tax administration and especially in original assessment.

Excluding Cook County, according to the latest information available, the assessment of real estate and personal property costs in the neighborhood of 800 to 900 thousand dollars per year, or about .6 per cent of annual property tax collections. This amount is no more than a fraction of the cost of installing and maintaining minimum standards of assessment. Until the annual outlay for valuation and administration is sharply increased, it can be expected that the tax rolls of the various counties will contain glaring inequalities among individuals, between urban and rural taxpayers, and between classes of property. See *Business Conditions* for August 1945, pp. 1-4, for a more detailed description of the Butler Committee program.

class of property to another. The influence of these developments of the 1946 tax bills can be ascertained by comparing the totals of taxes extended on the various classes of property. From preliminary data now available it is apparent that even though the total tax bill in some areas is virtually unchanged, the shift from personalty and state assessed property has raised real estate taxes as much as 10 or 15 per cent.

LOCAL VERSUS STATE CONTROL OF PROPERTY TAXES

The major impetus to higher taxes has come from sharply increased levies by school boards, city councils, and other corporate authorities. In a majority of instances these public officials are acting under the compulsion of maintaining public services at conventional standards in a period when the price level is rising rather sharply. Since approximately 50 per cent of the property tax collections are for schools, it is evident that demands upon property taxpayers arise from a source that has a high priority in the citizens' scale of governmental services.

How much higher do taxes need to be in order to support essential local services? The answer to this question lies in analyses of the financial affairs of thousands of Illinois governments. The level of local taxation and expenditure is the official responsibility of locally elected officials; it is the citizenship responsibility of the local taxpayers.

The laws of the State require public officials of every local government to prepare expenditure plans or budgets for the ensuing year and to hold public hearings on them prior to their adoption. No doubt these public hearings would be better attended, citizens would be better informed on the needs of their governments, and the public officials more responsive to the demand of taxpayers if the public notices of the budget hearings were accompanied by an estimate of the effect of the proposed budgets on tax bills. Local interest and participation is the only really effective and satisfactory means of controlling the level of local taxation. Unfortunately, the overwhelming majority of citizens ignore these practical and concrete opportunities to influence the amount and character of public expenditure in their community. Many direct their protests and demands for relief to the legislature in Springfield.

Statutory rate limits are a rule-of-thumb solution to the problem of high taxes. They generally ignore the great diversity in tax resources and expenditure needs of various taxing districts. Although Illinois is one of the wealthier states of the Union in terms of its natural, human, and capital resources, many areas of the state have a poor tax base. Even in the wealthier sections there are individual units that are hard pressed to meet acceptable standards of service by levies on property within their boundaries.

A simple, rigid system of limitation applied to the entire state will operate to widen the gap between services in the poor and in the wealthy districts unless state equalization aid is generously given to the poorer areas. A more flexible system of limitation will, of necessity, be more complicated and require many qualifications in the form of referenda and exceptions. These features lead to misunderstanding and litigation. The underlying difficulties can be minimized by some reorganization of local government and a broadening of the tax base of the smaller units by increasing their size. The elimination of tax gerrymandering would go far to reduce present inequalities in tax bases. These reforms would tend to limit the problem of disparities in tax resources to intercounty or even regional situations.

The practicability of a fairly elaborate system of limitation calculated to reflect relative needs and capacity of various types of local government has possibilities if allowed a fair period of trial. It may be noted that although the permanent limitation system now in effect in Illinois is extremely complicated, it fails to solve the problem of the poor and the wealthy districts. A somewhat less complicated system probably could accomplish the desired result, but it starts with the handicap of no established precedents.

The temporary solution recommended by the Butler Committee, and to be effective for a period of five years, is ingenious in meeting the problem of diversity in wealth and services on a county basis. It operates on the assumption that the level of effective tax rates (the nominal rate times the county assessment ratio) in the various counties had become fairly well adjused to the needs of local government. It proposes to perpetuate this relationship for a five-year period by providing that the legal rate limits for all taxing districts in any county should be that proportion of prior nominal rate limits indicated by the county assessment ratio. For example, in a county with a 60 per cent assessment ratio, the rate limit for school districts is .6 per cent; but in a county with a 20 per cent assessment ratio, the limit is .2 per cent.

Presently, proposals are being considered which would amend the formula in the Butler Bills so as to deny taxing districts the right to levy taxes at the same rates they could have employed in 1942. The demand for such changes stems from sharp increases in 1946 taxes in various sections of the state. Some of these proposals fail to take adequate account of the significance of higher and still rising price levels on local government cost and in the capacity of various groups of the citizens of the state as a whole to pay higher taxes.

The proposals merit consideration, on the other hand, because of the careless levying practice of some public officials and the readiness with which others have increased their levies beyond real needs. For many years it has been the custom of certain levying authorities to file certificates of levy with the county clerk for amounts far in excess of the needs for expenditure. This practice was characteristic of units which were at their legal rate limit and had been in the habit of having their requests automatically scaled down through the operation of the rate limitation laws. These districts have used the leeway afforded in the present program to increase the amount of taxes, as distinguished from the rate of tax, in proportion to the increase in full value. The result has been tax extensions for the year 1946 of amounts substantially in excess of real needs. Measures effective in limiting for the future such abuses of the taxing power should be framed so as to protect the legitimate needs of the great majority of local governments.

AGRICULTURAL EXPORTS SHIFT

(Continued from Inside Front Cover)

jumped from less than 200 million pounds annually to over 600 million pounds for the war years.

FINANCING SHIFTS

As the world passed from the war period into the stage of readjustment, the basis upon which American agricultural exports are bought has shifted. A recent U. S. Department of Commerce report on food exports recently published shows that in 1945 only 28 per cent of the exports were on the basis of cash purchases, the balance representing purchase and export on behalf of lend-lease and UNRRA. Contrasted to this was the 1946 situation in which nearly two-thirds of the exports of food were cash purchases. UNRRA purchases for export in 1946 were reported at 201 million dollars, against 628 million dollars for 1945. Lend-lease purchases of food for export in 1946 amounted to 184 million dollars, while in 1945 they were reported at one billion dollars.

It is too early yet to tell what further shifts may have taken place in 1947 in the pattern upon which exports are financed. Present indications are, however, that an even smaller proportion than in 1946 will be represented by government relief buying.

FOOD CRISES CAUSE FURTHER COMMODITY CHANGES

The acuteness of famine and food crises in various parts of Europe and the feeding tasks of occupational forces operating in former enemy territory have induced a further shifting of the commodity pattern of American agricultural exports. An intermediate stage in the shift was reached in 1946 when 1.3 billion pounds of meat were exported as compared with one billion pounds in 1945. Since then the urgencies of the food relief problem have put more of a premium on grain and flour shipments. This was felt already in 1946 when grain exports rose to 788 million dollars as compared with 445 million dollars in 1945. The 1946-47 crop year has been characterized by a great struggle on the part of the Government through its various agencies to meet the emergencies arising in areas where the supply of food is most critical.

A scheduled export program far surpassing all previous efforts was set up under which 400 million bushels of grain or its equivalent in flour were to be exported in the year beginning last July 1. It was announced recently that this schedule will have been met by the end of April and that expansion of grain shipments beyond the original "target" will be possible by whatever amounts the Government is able to procure and start on its way in May and June.

The total of exports of grain and flour was 299 million bushels through February of this year. Of this, 79 per cent or 236 million bushels was wheat and flour, the balance being corn, oats, barley, and grain sorghums. March and April allocations totaled an additional 115 million bushels of which only 60 per cent was wheat and flour. Difficulties of obtaining wheat in the desired quantities had forced the substitution of other grains. Allocations for these two months included 42 million bushels of corn.

At one time it seemed that the current season would mark easily the high point in relief needs for grains abroad. Repeated surveys of the situation and unfavorable winter crop conditions abroad, ranging from winter killing of crops in such areas as France and Belgium to drought conditions in Eastern Europe, have led to semi-official predictions or declarations that needs for exports of American grain may be as great in the 1947-48 crop year as for the present.

The changing pattern in other leading commodities shows further the pressure of the relief crisis. Reported meat exports in 1946 were 1.3 billion pounds. Thus far the U. S. Department of Agriculture has allocated meats for export for only the first half of 1947. The allocations total less than 300 million pounds. While these are allocations for commercial export only, it is clear that at this rate total meat exports for 1947 will mark a very material shift away from the levels prevailing during the last few years. The bulk of these allocations is for Great Britain and includes only beef, lamb, and mutton. No pork is being allocated because of the short domestic supply.

Other adjustments are indicated by the reduction in exports of eggs. Thus far, 1947 commitments have been made covering less than 50 million pounds of dried eggs for export, compared with the wartime average of about 175 million pounds annually. Estimates on 1947 exports of evaporated and dried milk and other dairy products indicate that the level this year will be at about half the volume averaged during the 1942-46 period.

A DEMAND FOR EXPORTS IN THE FUTURE?

The level of exports for many Seventh District farm products is of considerable importance to the relative prices received by farmers for those products. Many complicating circumstances make the judging of the future for exports highly uncertain. In attempting to progress with reconstruction, many nations are trying to use their exchange and scarce buying power sparingly on foods and farm products in order to be able to purchase capital goods in this and other countries to reconstruct their own productive economies. At the same time, political and social pressures among their own peoples cast considerable doubt on their ability to promote the agricultural self-sufficiency implied in such a policy. Recent and current shifts in the pattern of American agricultural exports suggest that, for the next year or two, relief and emergencies will be the principal support to export demand. The international policy currently taking shape, specifically now with regard to Greece and Turkey, may underscore the demand from this type of need. It seems likely now, however, that international "gifts" or loans of this type, if made, will more probably be dispersed to purchase industrial and military materials and facilities rather than foods and farm products of this country. Over a longer period there is little to suggest that the level of agricultural exports will be sustained. As world conditions become more normal, the downward trend in agricultural exports apparent before the recent war may reappear.

SEVENTH FEDERAL

RESERVE DISTRICT